

State Energy Strategy Meeting Notes
SeaTac – C.H.E.F. Facility
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Introductions and review agenda – Tony Usibelli

Regional and National Electricity Issues

Marilyn Showalter, WUTC

- Two handouts provided (Standard Market Design: Issues, Tensions, Problems; Differences that Make a Difference)
- FERC's Standard Market Design (SMD) invokes every principle and tension we are discussing as a committee
- There are two paradigms that are at odds – cost-based regulation versus market-based regulation. Where does competition fit in?
- FERC's aim is to make the market more competitive (market-based regulation). Competition is one of many tools for cost-based regulation. This creates tension between the two approaches.
- FERC believes this is necessary to address "undue discrimination" that results from a utility preference for its own customers (native load preference). This is a repudiation of our state's electricity policy.
- Question: New renewable resources may be discriminated against in gaining equitable access to transmission?
 - The issue is 'what is discrimination'? Our state says the job is to serve the customer. If there is discrimination it depends on how one defines the job.
- To address this, FERC is proposing jurisdiction over bundled retail transmission, retail demand response, and generation resource planning.
- The courts are not clear on this issue of jurisdiction in states that have bundled electricity services. FERC has never tried to assert jurisdiction. Now they are trying to assert jurisdiction in these areas by trying to follow the framework of the court.
- The other buzzword in the new rule is 'independence.' The transmission provider must be independent from the generator.
- But there is also independence from any political jurisdiction. The ITP is a private body removed from the state utility commission. There is a link to FERC.
- This breaks the link with the political accountability triangle (ratepayer/PUC/utility) and the links to fiscal responsibilities.
- This is more problematic in our region because of the public utilities and BPA. FERC wants to shift functions from BPA to the ITP. This is even more of a shift from public to private.
- Electricity is an essential public service. We can't take the public out. Our electricity system is: (1) a physical system; (2) economic system; (3) political system. A market design needs to include all three elements. The SMD does not account for the political.
- SMD is almost bound to fail. It is a national transformation of electricity markets. It is poorly thought out. There is layer upon layer of mechanisms. There are lots of gaps and places for failure to occur.
- Markets are not created, they grow organically. We have a wholesale market in the West. It is not perfect, but it exists and functions.
- The worst aspect of SMD is the jurisdiction issue. If FERC has jurisdiction in one market it has it everywhere.

- In the East, there is little idea of how our system works in the West. We don't stack our resources the same way. We have a river system and we must balance different competing choices. LMP does not easily apply to the operation of our hydro-based system.
- There is a tremendous groundswell of opposition to SMD – Western Governor's Association, Southern Governor's Association, virtually all NW public power, and conservatives (SMD is an amazing centralization of our electric system).
- How accountable is FERC to us, to the West?
- SMD is part of the Energy Bill. There is a lot of back and forth between vacating SMD versus slowing it down. Even slowing SMD down is bad because it still assumes FERC jurisdiction. I hope the Energy Bill does not pass.
- Question: There are problems with transmission access (for renewables). I am opposed to SMD, but would like to address the transmission problems.
 - We need to improve transmission access without hurting political accountability. What are the problems? Is the cure worse than the problem? The idea to overhaul the system to solve a few problems is misguided. If the system is not working right, we should make it better by addressing the specific problems.
- Question: Are we stuck halfway?
 - This is a problem, particularly on Wall Street. It creates uncertainty. We can't plan. But it doesn't mean we can't go back. California wants to go back. Thirty-five states are still regulated. This is a case where we have cost-based versus market-based approaches. We need to stick to our basic principles to preserve our cost-based system and use competition only where there is benefit.
- Question: Who is the biggest beneficiary?
 - The IPPs. I believe the role of the IPPs is to support the electric system we have developed. IPPs do not have an independent right. Who is the system for – the consumer. FERC is subordinating the retail system to the wholesale system.
- Question: How does this affect the Magnuson Amendment?
 - Preference would remain. But FERC would be able to assert itself over BPA.
- Question/Comment: How can the market and public power co-exist? You need to set up rules and let the market work. But if the market has to have pre-approval to work, then you have a very illiquid market that will not work?
 - Electricity is too important to turn over to the market. There is no provider of last resort. Electricity is not a commodity that works in a real market. This is why we come back to the need for a political system. We will not have a lavishly liquid market. But the goal is not to correct the market, but to serve the customer.
 - The most basic principle is power at an affordable cost.
- Question/Comment: I have a concern going forward without having the market to use as a yardstick. It seems the market has worked with CGTs and led to lower heat rates.
 - There can be a wholesale market, but we can't abandon regulation.
- Question: How long will the debate last? What impact is this having on the investment climate?
 - It means that the whole industry is perceived as risky. The regulator has to recognize this.
- Comment: Thank you to Marilyn for her advocacy on this issue. Marilyn is being asked to speak on this subject about twice a week.

Tom Karier, Northwest Power Planning Council

- A lot of energy issues come and go (issue of the day). But the issues we are facing today are different. They are defining issues/transformational issues. There are 3 transformational issues we are facing today.
 1. SMD: If this went forward, NW markets would never be the same. There is an immense amount of risk.

- 2. Future of BPA: This has the potential to transform NW markets.
- 3. Immediate needs of the transmission system: There are serious and significant congestion issues that need to be addressed. If they are not, there is great risk.
- If all three of these issues are addressed favorably, we get 80 to 90% of the way to the electricity system that we want and need. Our principles need to keep an eye on these three issues.
- 1. FERC: In addition to Marilyn's comments
 - There are fundamental problems with FERC regulating these markets. They are so bad at this. FERC had a role in the West Coast crisis. They approved the California plan. They resisted responding to the crisis and implementing price caps. They are not a neutral regulator. They have a vested interest.
 - We do have transmission problems that we need to identify, document and address. However, there is no evidence that has been produced showing there are problems with unfair access.
 - We need to look at IRP. It is not just for generation, but also for transmission and the demand side. We need to merge these in our planning efforts.
- 2. Future of BPA: We need to proceed with expediency
 - There is the promise of long-term allocation of resources and contracts.
 - There is the promise of clarifying roles – who is responsible for load growth and generation.
 - What is the role of BPA in markets? The proposal to reduce their role has some potential advantages.
 - Fish and the environment also need to be resolved.
- 3. Immediate needs of the transmission system:
 - Our transmission needs are not being met. We have to make these investments, otherwise we move into an era with lower reliability.
 - We need to look at BPA borrowing authority, 3rd party investments, etc.

Paul Norman, Bonneville Power Administration

- I have the same three issues. Not a lot to disagree with.
- Here are some ideas:
 1. SMD – 6 Tests
 - Appropriate to hydro system
 - Honors existing rights to transmission
 - Power at cost to the consumer
 - State and regional accountability
 - Lowers costs and improves reliability
 - Ensures appropriate investment
 2. Future of BPA
 - We do need long-term contracts. It is the best way to secure benefits of the system for the region (not legislation)
 - Some tests:
 - Preserves the ability of the hydro system to provide the full range of public benefits.
 - The solution does not require a change in law.
 - The solution does not pose increased risk on the Federal budget.
 - The solution is durable.
 - The solution clarifies who is responsible for meeting loads and load growth (increases utility responsibility for load growth)
 3. Underinvestment in Infrastructure
 - This is crucial. We need to identify ways to address this.

- Increasing BPA borrowing authority is part of the solution, but it is not the whole solution.
- Comment: Washington is the biggest beneficiary of the BPA transmission system
- Question: When considering long-term contracts, implicit in that is the need to protect the customer and provide reliable and affordable electricity. If I sign an agreement in a time of uncertainty and rates later go down, that is not a good thing for my customers. Affordable energy is a great incentive for business. We will eventually see a drop in BPA costs. Can you provide some insights on that?
 - Rates are now around 3.2 cents/kWh. Once payments are over (2007) rates get down to 2.5 cents, but these are stripped down rates. The question is what gets added to that. These are policy choices, not just something that BPA decides.
- Question: Rates were \$22/MWh 18 months ago. Now they are \$32/MWh. What does cost-based mean? What can we afford? Will rates go back to what they were?
 - Costs do go up.
 - Future discussions with BPA will be about this – what goes into these rates. BPA needs to come out with some estimates
 - Discussion about what utilities can afford. It was noted that the state did not want a mandate to purchase renewable energy because of budget constraints. Utilities can't afford these increases. It was observed that it is easier for utilities to raise rates than state or local government can raise taxes/revenue. But the same constituency is paying.

Guiding Principles

#1

- Split into two parts: (1) IRP: generation – transmission – demand management; (2) diversified portfolio
- We need language about actually implementing the plans – “adopt and implement”
- We have to be careful about prescribing. Things change.
- We have to be flexible, but address the concern about implementation.
- IRP is a defined term. Implement assumes a regulated environment. We need to emphasize planning rather than forcing it on entities. We want them to come back to planning voluntarily. Ensuring implementation pushes too far.
- We could take out integrated as being understood.
- Encourage is good for getting people to go through the process. If we require implementation, we are pushing it. It makes people more resistive.
- To what degree can we address this through flexibility in the plan?
- If I don't have enough resources to keep the lights on, I don't need any incentives.
- Encourage does not mean top-down command and control regulation.
- I support Marilyn's recommendation to split the principle into two parts.
- I don't have a strong feeling. Implement is implicit.
- Include demand management.
- There is general consensus about splitting the principle in two and adding demand management.
- We don't have statutory authority to enforce ‘implement.’
- Why are there different cost terms and how are these defined. See Marilyn's simplified language.
- Need to promote these things (conservation and renewables) and adopt policies to make them cost competitive/effective.
- The current language “encourage ... develop” addresses this.

- If we add demand management, this does not necessarily cover conservation, so this needs to be added or just say supply, demand, and transmission.
- The second part is a way of describing the first part.
- I agree with the prioritization of conservation and renewables because externalities are not included in costs. (we will come back to this)

#2

- I like Marilyn's edits. They are simple and straightforward.
- Maybe add "facilitate adequate and efficient access to capital markets." We don't just need access to capital, it has to be at a 'reasonable cost' or a 'competitive cost.'
- We don't need any adjectives, just 'facilitate access.' Isn't low cost implicit?

#3

- I am not here to support or attack RTO or SMD. I just want to encourage us to be visionary. Our principles need to stand the test of time. We need to provide low cost power and customer choice. We need to keep this in mind for both principles #3 and #5. My problem with #5 (particularly if we insert 'cost-based') is that it is exclusive. It is like a blanket on the whole market. The wholesale market needs to fit into this. We don't want to throw the baby out with the bath water. We want to be sure there is a balance so customers have choices.
- Cost-based is a term of art that does not apply to IOUs. Others disagreed.
- #3 seems discordant.
- The IPP role is to produce cheaper than anyone else. This is captured in "harness forces." We have a cost-based system for transmission and generation, but not in wholesale markets.
- Prefer the original #3 wording. The new wording ways there is a test – a qualifier.
- #3 as it exists lacks context.
- The rewritten version reflects Marilyn's comments this morning.
- #3 is fine as rewritten, but I don't like #5 as rewritten. We have to be careful about locking ourselves in because there are exceptions.
- What term do we use to describe our existing system (cost-based)?
- I like Marilyn's language. Maybe we need to be clearer on the customer part. If we need resources, market forces will be in play.
- In the original #3 insert wholesale before market. Need to clarify between wholesale and retail.
- There are differences in understanding cost-based. We need to differentiate between what the market will bear. The public is opposed to that. Cost-plus is one form of cost-based. Because the history of the NW is so cost-based with our hydro system, we need to say to the world this is one of our values.
- My concern is if you only say cost-based you exclude other choices.
- General support for Marilyn's language.
- What about this scenario – What about a wind resource that is better in the long run but is not the lowest cost. Does Marilyn's language hinder this?
 - Maybe, but it is a matter of definitions.
- A better word might be 'minimize' instead of 'reduce.'
- Use 'may' instead of 'can'. 'May' implies permission.
- This is a case where we may need a minority report. As written, this can be construed as a set of barriers.

#4

- As written, this addresses a current issue. Can it be reworded to reflect a longer-term value?
- Marilyn's edits may address this. Her language also makes this principle more parallel to the others.
- Does #6 address this topic? Would it be clearer if we said 'power and transmission system?'
- One of Marilyn's comments was to protect the integrity of the transmission system. Should this be added?

- Add 'transmission providers' to utilities and BPA. (Caution: this may imply favoring RTO). Or go with 'and others' – use Marilyn's language.

#5

- The issue is the use of cost-based in Marilyn's new language
- Use 'existing cost-based system'
- 'Washington's cost-based system' avoids using existing, which suggests it is not open to alteration, and avoids painting us into a corner.
- Put #5 cost-based principle before #3 market principle.
- We don't need to have cost-based. The language covers this.
- But FERC would say that the market would cover these things.
- We have public utilities and IOUs that are working within a cost-based system. And we do have a wholesale market. What term do we use to describe that system?
- We don't want to discourage market-priced products from entering the market.
- We need to preserve and promote the regulated environment.
- Replace 'states' with 'consumers.'
- There is affirmation of the principle that power is flowing to the consumer at cost.
- We need to rectify this with the wholesale market selling at market costs. The 'cost-based' descriptor doesn't quite get there. We can't define it enough.
- What we have works. Utilities can still buy power at market prices and sell to their customers.
- There are some end-use consumers that buy on the market.
- Changing the order of the principles gets at this. We will 'use market forces' is more than just the wholesale market.
- My concern is that this implies the market will be cost based. In the market I can sell power under the cost base and at others times sell over cost and make a profit. The principle implies the whole market is subject to cost-based regulation.
- Combine principles #3 and #5.
- Competition is not the objective. We are mixing ends and means.
- Is 'increase consumer choice' promoting retail access? We should try to avoid this and leave out consumer choice. [agreement on this]
- Does the environment need to be included? It is in other places.

#6

- Add 'and transmission' to 'power system.'
- This principle should be number 1. We should lead with our most fundamental views first. Others like #1 and 2 – this should be 3.
- I do not see the continuity with 'obligation to serve' in this principle. Some of BPA's proposals reduce the obligation to serve.
- Obligation to serve goes with #1. Maybe it should be the lead-in for this principle.
- What do we mean by obligation to serve? Does this include a large customer who leaves and wants to come back?
- We don't have certainty in the area we serve. It is hard to apply obligation to serve. Is this something the state should be looking at? It makes it difficult to plan.
- Where do we have the obligation to serve?
- This is not a new issue. When we get to actions we can address this issue.
- Integrate the obligation into #1 rather than obligation to serve which is so stark. We have had examples of this problem.
- Is there a lack of clarity on who has the obligation to serve? Who is the load serving utility? This is a problem we have now.
- It is not clear whether the revision reflects the obligation to serve individual consumers. This just says serve projected load.
- Insert customers.

#7

- The first sentence has technology. The second does not follow. We need to push the upper limits and stretch the goal by adding technology to the second sentence. It is not just conservation and the status quo.
- We don't want to lose the idea of doing more than technology.
- I like it how it is. It is implicit.
- Does clean mean renewable? Just use renewable (there are fuel cells, etc.)
- Use 'energy efficiency technology and practices.' Move clean energy first.
- Add sustainable. This also captures water conservation.
- This causes heartburn. What does sustainable mean?
- If we include the state leading by example, sustainability is defined.
- This sounds terrible. It needs editing.
- Energy efficiency includes technology and practices. Perhaps this can be included in the text.

#8

- Should it be 'form' instead of 'inform' (response probably not)?
- Should 'transmission' be there?
- Use Marilyn's edit – simplify.
- Need to be sure that the principle is proactive about changes over time.
- The details can be in the narrative.
- What about the environment? We lose some things in the shorter version. If a person read this, they would assume the environment is not there.
- Keep it short. The current version is a principle plus an argument.

#9

- Change 'electricity' to 'energy.'
- The wording is not consistent with the other principles. Start with 'evaluate' and then use 'proposed' and eliminate 'all state adopted.'
- Put the information about security concerns in the narrative.

#10

- Use Marilyn's edit.
- Take out 'serving utility' and add environment.
- Consumers should be knowledgeable of the consequences of their personal energy choices.
- Most people don't care. There should be educational choices.
- We need to include the effects of individual energy actions.
- If we insert environment and remove serving utility we change the whole context.
- Focus on education opportunities and then about what they are about – help people to be more informed about supply, demand, and the environment.
- This should just be about evolving energy issues in the state and providing opportunities to understand them.
- In general, we just want people to be more educated about energy issues.
- It is important to say something about the local utility. Generation has to come from somewhere. Their local utility has to provide power for load growth.
- Nick offered some specific language.
- The general principle just needs to highlight increasing understanding of energy issues. The narrative can provide more detail.
- Energy policy begins with a well-informed citizenry.
- This principle is an important leverage point for gaining attention and resources.

#11

- Washington is part of an integrated energy system. This need to be added (make this part of the narrative).
- Add 'tribes.'

#12

- I have concern about the word 'ensure.' All citizens have access. Perhaps we should be more specific, 'work on rate structures that help low-income...'
- Add 'promote policies and programs.' Change including to especially.
- Maybe just drop all citizens and address the specific sector with the need.
- Language from the 1993 strategy recommendations includes the state supporting funding to meet low-income needs.
- This is good as a recommendation, but not as a principle. The issue is more than just funding.
- We should say that the state should promote programs and policies that meet low-income needs.
- If we say state then the state is a gatekeeper. Others can also act. Keep the principle general.
- Substitute 'assist' for 'ensure.'
- Saying just 'basic energy services' is good.
- 'Ensure' means that it will be provided. 'Assist' allows for different levels of service.
- We are just talking about access, not providing something.
- This is pretty 'mom and apple pie.' We should not water it down.
- Who takes care of them? Somebody is going to provide it?
- Use 'promote policies and programs that provide access to basic energy services.'
- This is good. It provides a more general principle. The details can be in the text.

#13

- This is redundant.
- We need a proactive statement about enhancing environmental quality.
- I would love to see a reference to reducing greenhouse gas emissions.
- This could be better said in the narrative.
- Change 'and' to 'or.' Change to 'and/or.'
- What does 'cost-competitive' mean?
- There is no reference to how this affects rates.
- It should say 'promote' rather than 'implement.'
- Reword this in a similar way to the principle about energy security.
- Use 'evaluate energy policies by how well they maintain and/or enhance environmental quality.'
- Use 'promote' rather than 'evaluate.' This is consistent with the other principles.

Question: What is our process? (to be addressed later)

Environmental Issues Related to Electricity - Senator Karen Fraser

- The public cares about the environment.
- Overarching environmental issues:
 1. Climate warming
 2. Air pollution
 3. Water supply
 4. Water quality
 5. Habitat for fish and wildlife
 6. Implementation of environmental laws
- Policy responses: (not sure I got all of these)
 1. Reduce greenhouse gas emissions
 2. Promote energy conservation
 3. Promote alternative generation
 4. Improve air quality standards
 5. Carefully balance competing water quality needs
 6. Promote improvements in water quality

7. Health standards for diesel generators
 8. Implementation of environmental laws (more user friendly)
 9. Improve technical assistance to local government
- Question: Gray Davis signed a law requiring 20% of load growth to be met by renewables.
 - The governor (?) did propose something like this in the past. It was very controversial.
 - Question: California also established a CO2 reduction program for cars.
 - I just participated in a briefing on that. CA has started a process. If any state wants to copy CA they can.
 - Question: We do not have a state policy to promote renewables. The agriculture sector is interested on the legislative view on a state renewable standard. Also did you know that there is a harvesting clean energy group?
 - I welcome ideas on renewables. I have not heard of the harvesting clean energy group.
 - Question: Do you think the President's clean sky proposal presents opportunities or threats?
 - I have not had a chance to gain a full understanding of the proposal. I am a little skeptical of the trading provisions. I have no firm opinion. I am cautious because this would replace the Clean Air Act.

Process Discussion

- An 'Issues and Recommendations' document has been produced (in your folders) that includes comments and recommendations to be considered.
- Homework: Look through the 'Issues and Recommendations' document and provide feedback on the scope and coverage. Are there things that are missing? Things that you strongly agree or disagree with?
- Look at the recommendations from the 1993 strategy.
- We will add recommendations from today's presentations.
- We will begin drafting some material for the state energy strategy and will send it to the committee for review and input.
- There will be public open houses next month to receive comments and input.
- Are there methods the committee would like to propose for providing feedback and input on the strategy as it is developed?
- Question: How are recommendations going to be handled?
 - We will look at the guiding principles for guidance.
 - We will identify recommendations where there is unanimous agreement.
 - We will tee up other issues and identify intermediate steps.
- I don't see how this group can provide a consensus list of recommendations. Perhaps they group could identify ideas.
- Energy policy in this state takes a fair amount of agreement.
- Is there value in ongoing interaction, even after the strategy document is produced?
- As we move forward, we will find areas of agreement.
- We can identify areas of agreement and disagreement and things we did not have time for.
- We can identify issues without making a recommendation and make recommendations where we can.
- Are we going to stick to that – identify the issues and then make recommendations where we can?
- Question: Some of these things require state funding. Is it realistic to make recommendations that require state funding?
 - In the short-term we can assume there is no state funding. But there may be some things we want to tee up.
- Related to that, the receptivity to adding new costs to electricity rates is low. We need to be mindful of that.

